

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
LINCOLN COUNTY HOSPITAL  
MARCH 31, 2014 AND 2013

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LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended March 31, 2014 and 2013

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2014 and 2013. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported operating income of \$91,945 in 2014, an operating loss of \$355,895 in 2013, and an operating loss of \$376,054 in 2012. After consideration of tax appropriations and other nonoperating revenues and expenses, the Hospital's net position increased by \$168,651 or 11 percent in 2014 and decreased by \$294,802 or 16 percent in 2013.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2014 and 2013

Assets, liabilities, and net position

Table 1 below summarizes the Hospital's assets, liabilities, and net position for the latest three fiscal years.

Table 1: Assets, Liabilities, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 2,237,455	\$ 1,530,904	\$ 1,721,173
Capital assets, net	6,015,586	5,869,566	6,425,496
Other noncurrent assets	<u>1,009,246</u>	<u>1,176,507</u>	<u>1,009,262</u>
Total assets	<u>9,262,287</u>	<u>8,576,977</u>	<u>9,155,931</u>
Current liabilities	1,567,251	764,624	760,960
Noncurrent liabilities	<u>5,946,927</u>	<u>6,232,895</u>	<u>6,520,711</u>
Total liabilities	<u>7,514,178</u>	<u>6,997,519</u>	<u>7,281,671</u>
Total net position	<u>\$ 1,748,109</u>	<u>\$ 1,579,458</u>	<u>\$ 1,874,260</u>

Our ratio of current assets to current liabilities declined to 1.43 in 2014, from a ratio of 2.00 in 2013, and 2.26 in 2012. This ratio was impacted in the current year due to a receivable and liability related to installation of a certified electronic health record system by the Hospital. The system was certified on March 31, 2014. The Hospital's agreement with its software company was to defer the payment of the system until incentive monies are received from Medicare. Current assets are also impacted by the payment position with Medicare, timing of withdrawals from board funds, change in net accounts receivable, and the change in current liabilities. The Hospital recorded a receivable from third-party payors of \$290,307 in 2014, a receivable of \$210,902 in 2013, and a receivable of \$460,170 in 2012. The change in this balance means that the Hospital's interim payments received were higher or lower than actual reimbursement, which affects the year-end cost report settlement and cash. The month-to-month cash flow of the Hospital affects the amount of funds requested from Board funds to cover operating losses.

The Hospital's capital acquisitions were \$804,792, \$18,325, and \$83,680 during 2014, 2013, and 2012. The significant additions in 2014 were primarily related to the implementation of the electronic health record infrastructure and will be paid for in fiscal year 2015 after receipt of incentive payments from Medicare. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$659,772, \$574,255, and \$582,604 during 2014, 2013, and 2012. The increase in depreciation expense in 2014 is also due to the Hospital placing into service during the year approximately \$766,000 in assets related to implementation of its electronic health record system.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, funds set aside for future replacement of capital assets, and funds set aside for payment of future health claims expense. These balances will change as tax appropriations and contributions are received and funds are dispersed to the

LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2014 and 2013

Hospital's operating cash account. These funds decreased by \$179,638 in 2014 and increased by \$182,888 in 2013. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

Operating results and changes in net position

In 2014, the Hospital's net position increased by \$168,651 or 11 percent. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Net patient service revenue	\$ 6,234,349	\$ 5,934,370	\$ 5,749,707
Electronic health record incentive revenue	662,152		
Other operating revenue	<u>67,851</u>	<u>74,208</u>	<u>78,220</u>
Total operating revenues	<u>6,964,352</u>	<u>6,008,578</u>	<u>5,827,927</u>
Operating expenses			
Salaries and benefits	3,686,207	3,633,840	3,565,700
Supplies and other	2,526,428	2,156,378	2,067,785
Depreciation and amortization	<u>659,772</u>	<u>574,255</u>	<u>570,496</u>
Total operating expenses	<u>6,872,407</u>	<u>6,364,473</u>	<u>6,203,981</u>
Operating income (loss)	91,945	(355,895)	(376,054)
Nonoperating revenues net of expenses	<u>76,706</u>	<u>61,093</u>	<u>55,164</u>
Change in net position	<u>\$ 168,651</u>	<u>\$ (294,802)</u>	<u>\$ (320,890)</u>

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2014, the Hospital's operating income improved by \$447,840 in comparison to 2013, while in 2013 the operating loss decreased by \$20,159 in comparison to 2012. The Hospital's net patient service revenue in 2014 increased by 5.1 percent and in 2013 increased by 3.2 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts and, to a greater extent, the change in Medicare reimbursable costs. The increase in net revenues was accompanied with an 8.0 percent increase in operating expenses during 2014, and a 2.6 percent increase in 2013.

LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2014 and 2013

In 2014 and 2013, the Hospital received 76 percent and 78 percent of its net patient revenue from the Medicare program with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs and has helped stabilize the Hospital's net patient service revenues. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program. The Hospital's net revenues from Medicare were reduced by approximately \$90,000 in 2014 due to the sequestration payment cuts implemented by Medicare which became effective on April 1, 2013.

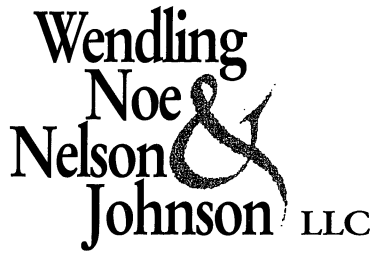
In 2014, the Hospital recognized electronic health record incentive revenues which relate to the Hospital certifying and meeting the first stage of electronic health record meaningful use. The \$662,152 in revenues recognized was from the Medicare program. Without these revenues, the Hospital would have reported a decline in operations of \$214,312 as compared to 2013.

Employee salaries, wages, and benefits increased by \$52,367 or 1.4 percent in 2014, and increased by \$68,140 or 1.9 percent in 2013, as compared with the previous year. Salaries, wages, and employee benefits represent 54 percent, 57 percent, and 58 percent of total operating expenses in 2014, 2013, and 2012. Total Hospital staffing decreased by 2.79 full-time equivalent employees in 2014 as compared to 2013. The decrease in FTEs was offset by an increase in services purchased from third-party contract service providers when employees cannot be retained for specific skilled positions. Employee benefits as a percentage of salary and wage expense was 29.3 percent in 2014, 25.3 percent in 2013, and 21.6 percent in 2012. This increase in 2014 was primarily due to a \$125,000 increase in the cost of employee health insurance during 2014, as compared with 2013.

Supplies and other expenses increased by \$370,050 in 2014, increased by \$88,593 in 2013, and decreased by \$71,785 in 2012. Items affecting the 2014 to 2013 comparison include an increase in contract nursing expense of \$205,000, an increase in administrative purchased services of \$79,000, an increase in physical, occupational and speech therapy contract expense of \$75,000, and an increase in building and equipment repairs and maintenance expense by \$43,000. These increases were partially offset by a \$161,000 decrease in ER physician service expense. Items affecting the 2013 to 2012 comparison included increased costs of contract nursing expense, medical supplies sold, and contract ER physician service expense. These increases were partially offset by a decrease in lab professional service supplies and pharmacy supplies sold.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high quality health care services to our patients.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Lincoln County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Lincoln County Hospital, a component unit of Lincoln County, Kansas, as of and for the years ended March 31, 2014 and 2013, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2014 and 2013, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other-Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lincoln County Hospital's financial statements as a whole. The supplementary information presented on pages 25 and 26 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

*Wendling Noel Nelson & Johnson 22C*

Topeka, Kansas  
July 23, 2014



FINANCIAL STATEMENTS

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF NET POSITION  
March 31,

ASSETS

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash	\$ 231,012	\$ 45,274	\$ 446,167	\$ 27,127
Investments		5,722		5,704
Assets limited as to use	167,660		124,102	
Accounts receivable, net of allowance for uncollectible accounts of \$164,811 in 2014 and \$106,867 in 2013	693,276		582,949	
Electronic health record incentive receivable	662,152			
Inventories	127,245		99,608	
Prepaid expenses and other	65,803		67,176	
Estimated third-party payor settlements	290,307		210,902	
Total current assets	<u>2,237,455</u>	<u>50,996</u>	<u>1,530,904</u>	<u>32,831</u>
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For operations	576,154		836,664	
For debt service reserve	203,103		165,930	
For capital assets	51,630		51,302	
For health claims	182,226		138,855	
By Public Building Commission	123,971		107,858	
	1,137,084	-	1,300,609	-
Less amounts required to meet current obligations	<u>167,660</u>		<u>124,102</u>	
	<u>969,424</u>	<u>-</u>	<u>1,176,507</u>	<u>-</u>
CAPITAL ASSETS, net	<u>6,015,586</u>	<u>-</u>	<u>5,869,566</u>	<u>-</u>
OTHER ASSETS				
Other investments	<u>39,822</u>			
	<u>39,822</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 9,262,287</u>	<u>\$ 50,996</u>	<u>\$ 8,576,977</u>	<u>\$ 32,831</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 285,968	\$ -	\$ 287,816	\$ -
Accounts payable	122,404		41,580	
Electronic health record purchases payable	723,057			
Salaries payable	159,199		165,433	
Payroll taxes payable	74,668		79,990	
Vacation benefits payable	98,138		108,284	
Other accrued expenses	79,211		56,269	
Interest payable	24,606		25,252	
Total current liabilities	1,567,251	-	764,624	-
LONG-TERM OBLIGATIONS, less current maturities				
	5,946,927		6,232,895	
Total liabilities	7,514,178	-	6,997,519	-
NET POSITION				
Invested in capital assets net of related debt	(929,249)		(639,130)	
Restricted				
For debt service	123,971		107,858	
For specific operating activities		39,557		21,392
Unrestricted	2,553,387	11,439	2,110,730	11,439
Total net position	1,748,109	50,996	1,579,458	32,831
Total liabilities and net position	\$ 9,262,287	\$ 50,996	\$ 8,576,977	\$ 32,831

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year ended March 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 6,234,349	\$ -	\$ 5,934,370	\$ -
Electronic health records incentive revenue	662,152			
Other	<u>67,851</u>	<u>20,189</u>	<u>74,208</u>	<u>22,034</u>
Total operating revenues	<u>6,964,352</u>	<u>20,189</u>	<u>6,008,578</u>	<u>22,034</u>
Operating expenses				
Salaries and wages	2,850,717		2,901,413	
Employee benefits	835,490		732,427	
Supplies and other	2,526,428	2,198	2,156,378	17,581
Depreciation	<u>659,772</u>		<u>574,255</u>	
Total operating expenses	<u>6,872,407</u>	<u>2,198</u>	<u>6,364,473</u>	<u>17,581</u>
Operating income (loss)	<u>91,945</u>	<u>17,991</u>	<u>(355,895)</u>	<u>4,453</u>
Nonoperating revenues (expenses)				
Tax appropriations	375,094		361,283	
Investment income	25,521	174	16,287	182
Interest expense	(324,223)		(335,992)	
Noncapital grants and contributions	314		16,015	
Other			<u>3,500</u>	
Total nonoperating revenues (expenses)	<u>76,706</u>	<u>174</u>	<u>61,093</u>	<u>182</u>
Excess of revenues over (under) expenses and change in net position	<u>168,651</u>	<u>18,165</u>	<u>(294,802)</u>	<u>4,635</u>
Net position beginning of year as previously reported	1,734,102	32,831	2,040,741	28,196
Prior period adjustment for change in accounting principle	<u>(154,644)</u>		<u>(166,481)</u>	
As restated	<u>1,579,458</u>	<u>32,831</u>	<u>1,874,260</u>	<u>28,196</u>
Net position end of year	<u>\$ 1,748,109</u>	<u>\$ 50,996</u>	<u>\$ 1,579,458</u>	<u>\$ 32,831</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS  
Year ended March 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 6,044,617	\$ -	\$ 6,209,479	\$ -
Payments to or on behalf of employees	(3,684,967)		(3,607,621)	
Payments for supplies and services	(2,471,868)	(2,198)	(2,173,532)	(17,581)
Other receipts and payments	67,851	20,189	85,208	22,034
Net cash provided (used) by operating activities	<u>(44,367)</u>	<u>17,991</u>	<u>513,534</u>	<u>4,453</u>
Cash flows from noncapital financing activities				
Tax appropriations	375,094		361,283	
Noncapital grants and contributions	<u>314</u>		<u>16,015</u>	
Net cash provided by noncapital financing activities	<u>375,408</u>	<u>-</u>	<u>377,298</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(82,735)		(18,325)	
Principal paid on long-term obligations	(286,919)		(275,327)	
Interest paid on long-term obligations	(325,766)		(340,038)	
Proceeds from the sale of capital assets			<u>3,500</u>	
Net cash used by capital and related financing activities	<u>(695,420)</u>	<u>-</u>	<u>(630,190)</u>	<u>-</u>
Cash flows from investing activities				
Changes in				
Internally designated funds	179,638		(182,288)	
Investments		(18)		(30)
Other investments	(39,822)			
Assets held by Public Building Commission	(16,113)		(32,712)	
Investment income received	<u>25,521</u>	<u>174</u>	<u>16,863</u>	<u>182</u>
Net cash provided (used) by investing activities	<u>149,224</u>	<u>156</u>	<u>(198,137)</u>	<u>152</u>
Net increase (decrease) in cash and cash equivalents	(215,155)	18,147	62,505	4,605
Cash and cash equivalents at beginning of year	<u>446,167</u>	<u>27,127</u>	<u>383,662</u>	<u>22,522</u>
Cash and cash equivalents at end of year	<u>\$ 231,012</u>	<u>\$ 45,274</u>	<u>\$ 446,167</u>	<u>\$ 27,127</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended March 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 91,945	\$ 17,991	\$ (355,895)	\$ 4,453
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	659,772		574,255	
Provision for bad debts	256,230		260,777	
Changes in				
Accounts receivable	(366,557)		(234,936)	
Estimated third-party payor settlements	(79,405)		249,268	
Other assets	(662,152)		11,000	
Inventories	(27,637)		18,209	
Prepaid expenses and other	1,373		(4,365)	
Accounts payable and accrued expenses	82,064		(4,779)	
Net cash provided (used) by operating activities	<u>\$ (44,367)</u>	<u>\$ 17,991</u>	<u>\$ 513,534</u>	<u>\$ 4,453</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a not-for-profit general hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (the Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The Foundation is administered by a self-perpetuating Board of Directors. One of the six members of the Foundation's Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

7. Inventories

Inventories are stated at cost as determined using the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control; and assets whose use is limited under a bond indenture agreement that are held by the Lincoln County Public Building Commission.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Other investments

The Hospital's investment in Community Holdings LLC is stated at the total cost of its capital contributions.

11. Vacation benefits payable

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

12. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.



LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

13. Net position

Net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

14. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

16. Cost of borrowing

Interest costs including amortization of bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

17. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

18. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

19. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

20. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

21. Adoption of accounting pronouncements

In 2014, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities," which established accounting and financial reporting guidance standards that reclassify certain items previously reported as assets and liabilities to deferred outflows and deferred inflows or to recognize them as expenses and revenues. Comparative financial statements of prior years have been adjusted to apply this new standard retrospectively. Adoption of this standard resulted in a write-off of previously recognized deferred financing costs which reduced the 2012 ending net position balance by \$166,481. This restatement increased previously reported change in net position by \$11,837 as a result of removing amortization expense for the year ended March 31, 2013.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2012.

Medicaid - Services rendered to Medicaid program beneficiaries through December 31, 2012, other than those covered by managed care plans, were paid under provisions applicable to critical access hospitals. Payments to the Hospital under the critical access hospital provisions were based on cost reimbursement methodologies used by the Medicare program. Final settlement with the Medicaid program is based on filed cost reports. Medicaid has final settled these cost reports through March 31, 2011. Effective January 1, 2013, inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue		
Inpatient	\$ 3,342,071	\$ 3,317,958
Outpatient	3,813,382	3,204,299
Physician services	253,240	240,732
Rural health clinic	<u>596,738</u>	<u>550,290</u>
	8,005,431	7,313,279
Third-party contractual adjustments	(1,470,652)	(1,088,590)
Charity care	(31,245)	(22,070)
Other discounts and allowances	(12,955)	(7,472)
Provision for bad debts	<u>(256,230)</u>	<u>(260,777)</u>
Net patient service revenue	<u>\$ 6,234,349</u>	<u>\$ 5,934,370</u>

Revenue from the Medicare program accounted for approximately 76 percent and 78 percent of the Hospital's net patient service revenue during 2014 and 2013, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

The Hospital maintains records to indentify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2014 and 2013 was \$31,245 and \$22,070, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$27,990 and \$17,991 for 2014 and 2013, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$662,152 of revenue for EHR incentive payments from the Medicare program in 2014. This amount is included in operating revenues on the statement of operations.

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts on amounts due from patients was 82 percent and 73 percent of self-pay accounts receivable as of March 31, 2014 and 2013, respectively. The Hospital's net bad debt write-offs were \$198,286 and \$304,809 for the years ended March 31, 2014 and 2013, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2014 or 2013. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

At March 31, 2014, the carrying amount of the Hospital's bank deposits was \$1,243,992 and the bank balances were \$1,371,109. Of the bank balances, \$432,226 was covered by federal depository insurance and \$938,883 was uninsured and collateralized with securities held by a third-party bank, but not registered in the Hospital's name.

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use which are invested in cash, is as follows:

	<u>2014</u>	<u>2013</u>
Board of Trustee funds	\$ 1,013,113	\$ 1,192,751
Under bond agreements	<u>123,971</u>	<u>107,858</u>
Total assets limited as to use	<u>\$ 1,137,084</u>	<u>\$ 1,300,609</u>

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.

NOTE F - CAPITAL ASSETS

	Balance March 31, <u>2013</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2014</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,020,511			2,020,511
Fixed equipment	5,374,018	10,004		5,384,022
Movable equipment	<u>1,943,047</u>	<u>794,788</u>		<u>2,737,835</u>
	<u>9,544,590</u>	<u>804,792</u>	<u>-</u>	<u>10,349,382</u>
Less accumulated depreciation and amortization				
Land improvements	44,042	12,458		56,500
Buildings	1,028,452	85,828		1,114,280
Fixed equipment	1,319,253	299,528		1,618,781
Movable equipment	<u>1,283,277</u>	<u>261,958</u>		<u>1,545,235</u>
	<u>3,675,024</u>	<u>659,772</u>	<u>-</u>	<u>4,334,796</u>
Projects in progress	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Capital assets, net	<u>\$5,869,566</u>	<u>\$ 146,020</u>	<u>\$ -</u>	<u>\$6,015,586</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE F - CAPITAL ASSETS - Continued

	Balance March 31, 2012	Transfers and additions	Retirements	Balance March 31, 2013
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,020,511			2,020,511
Fixed equipment	5,360,251	13,767		5,374,018
Movable equipment	<u>1,938,489</u>	<u>4,558</u>		<u>1,943,047</u>
	<u>9,526,265</u>	<u>18,325</u>	<u>-</u>	<u>9,544,590</u>
Less accumulated depreciation and amortization				
Land improvements	31,097	12,945		44,042
Buildings	942,591	85,861		1,028,452
Fixed equipment	1,020,904	298,349		1,319,253
Movable equipment	<u>1,106,177</u>	<u>177,100</u>		<u>1,283,277</u>
	<u>3,100,769</u>	<u>574,255</u>	<u>-</u>	<u>3,675,024</u>
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$6,425,496</u>	<u>\$ (555,930)</u>	<u>\$ -</u>	<u>\$5,869,566</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2014</u>	<u>2013</u>
Capital lease obligation with the Lincoln County, Kansas Public Building Commission; interest rate of 4.375% to 5.50%; issued on December 15, 2008, in the original amount of \$6,300,000; due serially through March 1, 2035	\$ 5,855,000	\$ 6,010,000
Capital lease obligation; imputed interest rate of 5.50%; payable in monthly installments of \$10,850 through March 2017; collateralized by leased equipment with an amortized cost of \$325,150 at March 31, 2014	360,666	468,830
Capital lease obligation; interest rate of 4.625%; payable in monthly installments of \$2,053 through June 2014; collateralized by leased equipment with an amortized cost of \$22,453 at March 31, 2014	<u>6,112</u>	<u>29,867</u>
	6,221,778	6,508,697
Unamortized premium on bonds	<u>11,117</u>	<u>12,014</u>
	6,232,895	6,520,711
Less current maturities	<u>(285,968)</u>	<u>(287,816)</u>
	<u>\$ 5,946,927</u>	<u>\$ 6,232,895</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Capital lease with PBC</u>	<u>Total long-term obligations</u>
Outstanding at April 1, 2012	\$ 624,024	\$ 6,160,000	\$ 6,784,024
Principal payments	<u>(125,327)</u>	<u>(150,000)</u>	<u>(275,327)</u>
Outstanding at March 31, 2013	498,697	6,010,000	6,508,697
Principal payments	<u>(131,919)</u>	<u>(155,000)</u>	<u>(286,919)</u>
Outstanding at March 31, 2014	<u>\$ 366,778</u>	<u>\$ 5,855,000</u>	<u>\$ 6,221,778</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE G - LONG-TERM OBLIGATIONS - Continued

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of \$6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds of the Hospital, for the purpose of renovating the Hospital building (the Project).

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC, the County, and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Scheduled annual debt service requirements on the lease with the Public Building Commission are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 165,000	\$ 295,278	\$ 460,278
2016	175,000	287,027	462,027
2017	180,000	278,277	458,277
2018	190,000	269,278	459,278
2019	200,000	259,778	459,778
Thereafter	<u>4,945,000</u>	<u>2,468,845</u>	<u>7,413,845</u>
	<u>\$ 5,855,000</u>	<u>\$ 3,858,483</u>	<u>\$ 9,713,483</u>

The following is a schedule of future minimum lease payments under capital leases, excluding the lease with the Public Building Commission, as of March 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 120,094	\$ 16,265	\$ 136,359
2016	120,112	10,088	130,200
2017	<u>126,572</u>	<u>3,628</u>	<u>130,200</u>
	<u>\$ 366,778</u>	<u>\$ 29,981</u>	<u>\$ 396,759</u>



LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE G - LONG-TERM OBLIGATIONS - Continued

Total interest costs are summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest incurred	\$ 325,120	\$ 336,912
Bond premium amortization	<u>(897)</u>	<u>(920)</u>
Interest expense	<u>\$ 324,223</u>	<u>\$ 335,992</u>

NOTE H - PENSION PLAN

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2014 and 2013, was \$2,621,215 and \$2,667,486, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2014 and 2013, was \$199,222 and \$212,702, respectively.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	51.1%	55.6%
Medicaid	4.9	7.1
Blue Cross	11.0	12.3
Commercial insurance	10.3	7.2
Self-pay	<u>22.7</u>	<u>17.8</u>
	<u>100.0%</u>	<u>100.0%</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE J - RISK MANAGEMENT

For the years ended March 31, 2014 and 2013, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on January 15, 2014, for the policy period from January 15, 2014 to January 15, 2015.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE K - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note J). There have been claims asserted. Management believes that any claims asserted for incidents occurring through March 31, 2014, would be settled within the limits of insurance coverage.

NOTE L - EMPLOYEE HEALTH INSURANCE CLAIMS

Beginning January 1, 2013, the Hospital was partially self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$25,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The Hospital's estimated liability for reported and unreported claims incurred as of March 31, 2014 and 2013, was \$39,881 and \$12,231, respectively.

The Hospital has a 6.3 percent interest in Community Holdings LLC, which provides individual stop-loss coverage for incurred claims expense in excess of \$25,000 for each covered individual. The Hospital paid Community Holdings LLC approximately \$150,000 in 2014 for premiums under its partially self-insured health insurance plan.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2014 and 2013

NOTE M - RELATED PARTY TRANSACTIONS

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$375,094 and \$361,283 in tax appropriations from Lincoln County in 2014 and 2013, respectively. The Hospital also received \$15,000 in contributions from the Foundation during 2013.

A member of the Hospital's Board of Trustees provides pharmacy services to the Hospital. For the years ended March 31, 2014 and 2013, the Hospital expensed approximately \$37,000 and \$31,000 for these services, respectively.

At March 31, 2014, the Hospital has approximately \$1,189,000 of deposits with a local bank. The vice president of this bank serves on the Hospital's Board of Trustees.

NOTE N - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent certified public accountants' report, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LINCOLN COUNTY HOSPITAL  
PATIENT SERVICE REVENUE  
Year ended March 31,

	2014			2013
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine services				
Adults and pediatrics	\$ 1,485,937	\$ -	\$ 1,485,937	\$ 1,401,851
Ancillary services				
Operating room				3,557
Radiology, ultrasound, nuclear medicine, echocardiography, and vascular studies	78,425	381,485	459,910	389,874
CT scan and MRI	79,159	667,897	747,056	741,134
Laboratory and blood	208,781	1,022,741	1,231,522	1,171,837
Physical therapy	107,544	490,505	598,049	487,109
Occupational therapy	146,717	57,218	203,935	157,221
Speech therapy	6,490	9,391	15,881	6,393
Electrocardiology	11,052	60,962	72,014	66,103
Medical supplies	474,623	110,395	585,018	470,135
Pharmacy	695,345	399,695	1,095,040	1,168,006
Emergency room	2,281	233,608	235,889	203,827
Treatment room	44,320	363,958	408,278	244,510
Observation care	1,397	15,525	16,922	10,700
Clinic and physician		849,980	849,980	791,022
	<u>1,856,134</u>	<u>4,663,360</u>	<u>6,519,494</u>	<u>5,911,428</u>
	<u>\$ 3,342,071</u>	<u>\$ 4,663,360</u>	8,005,431	7,313,279
Less				
Contractual adjustments - third-party payors			(1,470,652)	(1,088,590)
Charity care			(31,245)	(22,070)
Administrative discounts			(12,955)	(7,472)
Provision for bad debts			(256,230)	(260,777)
Net patient service revenue			<u>\$ 6,234,349</u>	<u>\$ 5,934,370</u>

LINCOLN COUNTY HOSPITAL  
OPERATING EXPENSES BY FUNCTIONAL DIVISION  
Year ended March 31,

	2014			2013		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	\$ 625,960	\$ 469,250	\$ 1,095,210	\$ 717,926	\$ 239,408	\$ 957,334
Ancillary services						
Operating room						
Radiology, ultrasound, nuclear medicine, echocardiography, and vascular studies	130,617	102,603	233,220	126,881	86,858	213,739
CT scan and MRI	18,278	47,430	65,708	19,028	41,050	60,078
Laboratory and blood	113,911	168,783	282,694	106,549	166,687	273,236
Physical therapy		206,613	206,613		154,167	154,167
Occupational therapy		100,294	100,294		87,863	87,863
Speech therapy		17,903	17,903		7,979	7,979
Electrocardiology	3,650		3,650	3,481		3,481
Medical supplies	21,620	60,361	81,981	20,463	89,014	109,477
Pharmacy		406,576	406,576		365,736	365,736
Emergency room	380,959	187,767	568,726	350,169	331,963	682,132
Clinic and physician	662,438	239,409	901,847	671,766	275,188	946,954
Other	659		659			
	<u>1,332,132</u>	<u>1,537,739</u>	<u>2,869,871</u>	<u>1,298,337</u>	<u>1,606,505</u>	<u>2,904,842</u>
General services						
Administration and general	63,090	284,725	347,815	101,780	212,133	313,913
Accounting	192,261	225,050	417,311	173,801	167,271	341,072
Plant operations and maintenance	48,116	293,773	341,889	62,301	258,977	321,278
Laundry	28,532	24,902	53,434	26,808	31,758	58,566
Housekeeping	93,883	45,180	139,063	81,572	46,557	128,129
Dietary	183,121	154,528	337,649	176,741	168,167	344,908
Nursing administration	86,150	17,243	103,393	76,710	23,500	100,210
Medical records	91,760	33,797	125,557	87,104	34,636	121,740
Education and activities	32,181	21,155	53,336	27,324	15,995	43,319
Patient care coordination	73,531	19,899	93,430	71,009	22,582	93,591
Employee benefits - other		234,677	234,677		61,316	61,316
Depreciation		659,772	659,772		574,255	574,255
	<u>892,625</u>	<u>2,014,701</u>	<u>2,907,326</u>	<u>885,150</u>	<u>1,617,147</u>	<u>2,502,297</u>
	<u>\$ 2,850,717</u>	<u>\$ 4,021,690</u>	<u>\$ 6,872,407</u>	<u>\$ 2,901,413</u>	<u>\$ 3,463,060</u>	<u>\$ 6,364,473</u>